THE IMPACT OF DIGITAL FINANCE

TRANSFORMING THE WAY FINANCE DELIVERS VALUE TO THE ENTERPRISE
OVER THE PAST 30 YEARS, the finance function has been focused on automating transaction processing. But modern CFOs and finance organizations have their eyes on an even bigger prize. They are exploring investments in digital finance for decision support and other higher-level functions. In fact, in a recent CFO Research survey, in partnership with Tata Consultancy Services (TCS), 82% of CFOs are driving digital transformation either within their own finance department or at an enterprise level. They see digital as a means to propel finance into a front office function of greater significance to the CEO.

Many companies recognize that digital finance has the potential to improve decision-making, streamline reporting and consolidations, and enhance budgeting and forecasting. “The investments in new technologies are driven by changes to the business model as well as changes in the role of finance to provide more strategic insights into the business,” said Dave Jordan, Vice President & Global Head, Consulting & Services Integration, TCS.

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—VIKAS GOPAL, GLOBAL MANAGING PARTNER, FINANCE & SHARED SERVICES TRANSFORMATION, TCS

While organizations have been talking about push-button reporting for decades, finance headcounts have remained steady — even when factoring in the gains achieved by automated reconciliation, automated journal entry, and elimination of spreadsheets. Firms must overcome technological and cultural hurdles to realize the full value of digital finance.

This White Paper will explore some of the challenges and opportunities associated with true digital finance transformation.
Most CFOs are aware that digital enablement will shift the way that they deliver finance products and services to those inside and outside of their organization. What they grapple with is uncovering the best way to change their existing business processes and employ the best technology for the task.

From a technology perspective, it is important to fully consider the challenge and objective to align and maximize the investment. Take RPA as an example. Some mistakenly view it as a “magic wand” that will deliver a fully automated close process. In reality, the process is enabled by the tools, which speed the close by handling the maximum number of transactions possible with straight-through processing. Implementing process changes prior to rolling out technology enables RPA to deliver its full value potential.

Just being aware of the latest disruptive technology is not enough. Organizations have to do the internal realignment work needed to ensure that the processes they are aiming to automate are in the best shape possible. Only with streamlined processes can technology enhancements be leveraged.

Ensuring that the organization has the right data to empower technology is another hurdle that finance chiefs must overcome. While there are technologies available to assist with automating data cleansing, and cognitive can cope with some data issues, the better and more complete the data available, the better the digital finance transformation will perform.

Also, leveraging much wider sets of data than traditional finance — e.g. integrating supply chain or returns information — can help identify and proactively address supplier issues. This information is often stuck in silos, making it difficult to surface and when it does, it is frequently too late to inform real-time decision-making.

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Aligning data and business goals is essential, but companies also need to align their digital strategies with the need for process improvement. It is not just about being mindful of business goals — boosting customer satisfaction, introducing new products, expanding in a new market, etc. Companies that simply automate broken processes without addressing the underlying inefficiencies are destined to fail. “RPA may be the answer, but if you don’t know the question you won’t be successful,” said Varun Patel, Strategic Business Manager, TCS.

Better coordination between finance and its internal customers can help identify areas that will benefit from a digital transformation. Surveys and interviews of internal finance customers can uncover key issues such as which products or services are contributing to the bottom line, and which are overlooked, redundant, obsolete or otherwise no longer providing value.

Another critical concern is to understand how internal customers rely on finance to provide them with the information they need, in the right format, at the right intervals. A digital Office of Finance that is tune with their organization’s needs can speed that process, positioning the finance team as a change enabler rather than simply a recorder of history.

Many organizations have redundancies when it comes to finance products and services. This can be the result of mergers and acquisitions — where processes are either ignored over time or become overly complex trying to serve many masters. For example, many organizations dedicate a lot of time and resources of the finance team to plan, forecast, and budget, only to have detailed plans that took significant effort to refine bulldozed by senior management mandating additional revenue or cost reduction at the end of the process.

Redefining the finance core product offerings is a task that needs to be undertaken but is often left on the sidelines. It is important to weed out reports that are redundant or not critical. Often, a report is generated because someone asked for it years ago, and that person is gone and no one knows the value of the report. “Reports should be evaluated through the lens of how useful the reporting is, and how likely it is to actually drive business decisions,” added James Byrne, Global Lead Partner, Finance Transformation, TCS.

Finance executives are also challenged when it comes to identifying automation opportunities. Siloed systems and processes make it difficult to get a handle on what systems are most likely to benefit from a digital transformation. Having an external view can provide a more impartial picture of the challenges an organization faces. For example, no amount of finance automation is going to remedy inaccurate or incomplete information being generated at the point-of-sale, but those inside the organization may be too close to the situation to identify the problem.

Disparate systems also hamper efforts to identify and define the internal finance metrics that will measure the impact of improved finance organizational performance and value-creation opportunities. However, RPA has a role to play as a “stop gap” solution for gathering data from these systems as better integrated solutions emerge.

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As finance professionals transition away from traditional budgetary variance analysis and a purely financial view, they need to be adept at leveraging both financial and non-financial metrics to support internal customers.

The world of accountants and process owners will need to be enhanced by data scientists, automation specialists, and analysts with more business acumen.

A lack of measurement of the impacts of digital transformation can influence the decision to add more automation or people. The question becomes: Do you need a top-dollar, experienced data scientist, or can you solve the problem with artificial intelligence (AI)? The reality is that the best value is achieved when you have the skilled workers to manage the disruptive technology. While AI can relieve some of the drudgery, appropriate checks and balances need to be in place to supervise the digital workers. While the mechanisms to manage may be different, there needs to be humans supervising the bots.

And while automation theoretically provides more time for analysis, most members of the finance team have never done the appropriate analysis required to improve decision support.
As finance professionals transition away from traditional budgetary variance analysis and a purely financial view, they need to be adept at leveraging both financial and non-financial metrics to support internal customers. Some of those metrics include:

- **Product**: time-to-market, brand equity
- **Customer**: retention, frequency, customer lifetime value, cost of customer acquisition, rate of churn/renewal, percentage of repeat business
- **Operational**: process quality index, cycle times, error rates, time to resolution
- **Employee**: retention, satisfaction

The finance team needs to position itself as the hub of useful information for the entire organization. “Finance needs to move from being recorders of the past to custodians of information that has been enriched and enhanced to improve decision-making,” Byrne said.

The finance team needs a new set of skills. The evolution is underway, and in some organizations these roles already exist.

For example, accountants work less on spreadsheets, and work more on managing the applications, software, or tools that perform the accounting activities. This is a big driver in reevaluating what skill sets are required for the finance teams of tomorrow.

The modern finance professional will focus on the needs of the business. This involves looking forward to align metrics to enterprise strategy and evolving business models. This paradigm shift means that finance leaders must take charge of the automation framework, something they have not done previously.

Senior finance executives will have to reassess their teams and hiring practices. They must define the talent gap among their current team and then recruit to fill the voids by working with HR to develop hiring, career development, and training plans.

This is a huge leap for teams that have been relying on Excel spreadsheets for decades. Modern business requires a consolidated view of the company’s financial position in near real-time, rather than on a monthly or quarterly basis.

As the Office of Finance shifts to a more strategic role, it must develop and clearly communicate a new organizational culture centered on digital transformation and cultivate champions among the finance team, business process owners, and the C-suite.
Digital finance transformation must contribute to the overall enterprise by bolstering shareholder value, financial performance, and working capital management.

Digital tools can only deliver on their promise if the underlying processes and data-quality issues are evaluated and revamped.

The truth is that traditional finance organizations are still focused on transaction processing, which means that resources are being spent on dedicated ERP and financial reporting solutions.

Where are organizations spending their money when it comes to digital finance? Increasingly, digital enablers — including web-based self-service, automated reconciliation, blockchain, and RPA — are the future of finance.

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Eliminating manual entry is a key driver to digitizing the finance function. RPA can reduce manual rekeying, enable straight-through invoice processing, and streamline the monthly reporting process.

Yet there are still a lot of areas where humans on keyboards are fixing data issues. The mindset that it is easier to spend 10 minutes manually fixing something no longer works when 50 adjustments have to be made.
Top-performing finance organizations are reaping huge benefits from digital finance enablers, including:

- Automated rolling forecast
- Predictive error remediation
- Reduced dependency on Excel through broader suite of solutions, including streamlined integrations and data strategies as well as more flexible analytical tools
- More accurate out-of-compliance spend prediction
- Better insight into the impact of market trends on financials
- Continuous close
- Near-real-time financial condition information

To ensure that investments are having a positive impact on the way that finance operates, particularly the transaction processing space, top-performing organizations are integrating performance metrics into the operations of the finance function.

First, there are cost metrics, e.g., a key indicator is full-time equivalents (FTEs) per billion of revenue. Transactions per finance FTE is another measure of efficiency. Error rates are also critical, including the number of manually adjusted entries, first-time accuracy of matching, and cycle time to identify and resolve control violations.

Effectiveness metrics examine how well digital finance is performing in areas such as percentage of straight-through transactions and forecast accuracy. As forecasts become more accurate, they drive a more realistic view of the future and reduce the tendency to ignore or override forecasts.

One such metric is finance cost-per-transaction, which many companies are addressing by outsourcing routine transaction management functions to lower cost providers. This enables their highly paid accountants and analysts to focus on business improvement, and supports growth and acquisitions at near-zero incremental finance cost.

While improving the efficiency of the finance function drives change within the function, digital finance transformation also has to contribute to the overall enterprise by bolstering shareholder value, financial performance, and working capital management. Emerging technologies such as AI, RPA, blockchain, Internet of Things, cloud-based solutions, and advanced analytics can be leveraged add value to cross-functional processes that revolve around finance.

While these technologies can generate results, digital tools can only deliver on their promise if the underlying processes and data-quality issues are evaluated and revamped to maximize the impact of automation. Simply layering digital tools over current broken processes will not deliver the expected ROI.
Modern CFOs need to be adept at examining a wide range of financial and nonfinancial information from internal and external sources.

Going forward, the Office of Finance will be increasingly involved in business decisions it has not traditionally been part of — e.g., assessing the capital requirements, cash-flow impact, and financial risks of individual product introductions, marketing campaigns, and pricing strategies. So maintaining a clear understanding of these areas of the business will be part of finance’s new role.

As the finance team is reconfigured, the CFO’s responsibilities will also shift. Finance chiefs will need to go from being adept at accounting, regulations, and reporting to being a member of the leadership team collaborating to achieve enterprise value.

“Modern CFOs need to be adept at examining a wide range of financial and nonfinancial information from internal and external sources,” said Vikas Gopal, Global Managing Partner, Finance & Shared Services Transformation, TCS.

Future CFOs will need to have solid business judgment as well as risk management skills and an understanding of data security. Successful finance leaders will build a culture around the importance of next-generation technology and digital transformation.
CONCLUSION

The same old processes and strategies that have been the foundation of the finance function for decades will no longer suffice. New digital tools can improve efficiency and reduce headcount by performing many routine tasks without human intervention. The more transactions that are handled with straight-through processing, the more the finance team can focus on value-added activities that boost the bottom line.

But the potential of digital finance goes beyond cost-saving measures. Finance leaders can make better decisions about products, services, customers, and employees when they have modern tools at their disposal.

Better insights into the business that go beyond historical reporting are the path forward. CFOs need to prepare now to lead the digital transformation, or get left behind.

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